United Nations A/70/7/Add.2

General Assembly

Distr.: General
23 October 2015

Original: English

Seventieth session
Agenda item 134
Proposed programme budget for the biennium 2016-2017

Eighth progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction and background

1. The Advisory Committee on Administrative and Budgetary Questions has considered the eighth progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) by the United Nations (A/70/329). During its consideration of the report, the Advisory Committee met with the representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 14 October 2015.

2. The Advisory Committee recalls that the General Assembly, in its resolution 60/283, approved the adoption of IPSAS by the United Nations. The Committee also recalls that the Secretary-General submitted progress reports on the adoption of IPSAS to the Assembly in 2008 (A/62/806), 2009 (A/64/355), 2010 (A/65/308), 2011 (A/66/379), 2012 (A/67/344), 2013 (A/68/351) and 2014 (A/69/367). In his eighth progress report, the Secretary-General reviews the activities relating to the implementation of IPSAS at the United Nations and the relevant organizations of the United Nations system during the reporting period (1 September 2014-31 August 2015). The report announces the successful implementation of IPSAS at the United Nations and provides an outlook regarding the longer-term sustainability of IPSAS compliance for the Organization. Background information on the project is provided in paragraphs 1 to 3 of the report.

3. In the introduction to his report, the Secretary-General indicates that during the reporting period, the United Nations, excluding peacekeeping operations, issued its first set of IPSAS-compliant financial statements for the financial year ended 31 December 2014 and received an unqualified audit opinion from the Board of Auditors. It is also indicated that at the time the report was issued, the Organization was on track to issue its second IPSAS-compliant financial statements for

Please recycle

peacekeeping operations for 2015 by 30 September 2015. Furthermore, two other organizations, the Food and Agriculture Organization of the United Nations and the World Tourism Organization are reported to have issued their first IPSAS-compliant financial statements for the financial year ended 31 December 2014, which means that all 24 organizations of the United Nations system have become IPSAS-compliant.[1] In this regard, the Advisory Committee notes that the Board of Auditors, in its summary report on principal findings and conclusions contained in its reports for the annual financial period 2014, indicates that overall, the delivery of IPSAS-compliant financial statements for all United Nations entities has been a significant achievement. The Board adds, however, that the ultimate test of success will be to further develop and sustain a strong financial function to prepare high-quality financial statements, underpinned by more accurate data from financial systems (A/70/322, para. 24).

4. **The Advisory Committee commends all entities of the United Nations system for the successful implementation of IPSAS and for receiving unqualified audit opinions on their IPSAS-compliant financial statements. The Committee is of the view that, having achieved this important milestone, much work still remains to harness the benefits of IPSAS to the achievement of greater efficiency, effectiveness and accountability in the management of their resources.**

II. Implementation of IPSAS at the United Nations

Overview

5. Information on the implementation of IPSAS at the United Nations is contained in paragraphs 5 to 79 of the report. The Secretary-General outlines major project milestones that were achieved during the reporting period, in particular the issuance of the first IPSAS-compliant financial statements for each of the 13 financial reporting entities of the Secretariat[2] and the endorsement of the IPSAS benefits realization plan

[1] The following 24 organizations of the United Nations system have adopted IPSAS. In 2008: World Food Programme; in 2010: International Civil Aviation Organization; International Maritime Organization; International Telecommunication Union; Pan American Health Organization; United Nations Educational, Scientific and Cultural Organization; United Nations Industrial Development Organization; World Intellectual Property Organization; World Meteorological Organization; in 2011: International Atomic Energy Agency; Universal Postal Union; in 2012: International Labour Organization; United Nations Development Programme; United Nations Population Fund; Office of the United Nations High Commissioner for Refugees; United Nations Children's Fund; United Nations Office for Project Services; United Nations Relief and Works Agency for Palestine Refugees in the Near East; United Nations Entity for Gender Equality and the Empowerment of Women; World Health Organization; Joint United Nations Programme on HIV/AIDS; in 2014: Food and Agriculture Organization of the United Nations; United Nations; World Tourism Organization.

[2] The United Nations Secretariat issues 13 sets of financial statements: the operations of the United Nations, as reported in volume I, United Nations peacekeeping operations, as reported in volume II, International Trade Centre, United Nations University, United Nations Institute for Training and Research, United Nations Compensation Commission, United Nations Environment Programme, United Nations Human Settlements Programme, United Nations Office on Drugs and Crime, International Tribunal for the Former Yugoslavia, International Criminal Tribunal for Rwanda, International Residual Mechanism for Criminal Tribunals and United Nations escrow account established under the provision of Security Council resolution 1958 (2010).

by the Management Committee in the third quarter of 2014 in order to ensure that the new information furnished through IPSAS is utilized to better manage the Organization (see para. 7 below). The Secretary-General also indicates that at the operational level, the period saw a continued emphasis on providing guidance through formal communications, instructor-led training and computer-based training modules. According to the report, the successful issuance of IPSAS-compliant financial statements marks the end of the implementation phase of the IPSAS project and the beginning of the post-implementation phase, which will be defined by longer-term efforts to sustain IPSAS compliance in the day-to-day operations throughout the Organization.

Main pillars of the IPSAS sustainability plan

6. In his report, the Secretary-General defines "sustainability" as the ultimate goal to embed Organization-wide structures and processes that provide support for ongoing IPSAS compliance and make IPSAS part of day-to-day operations. Figure IV of the report presents a timeline of the major milestones of the sustainability phase, which runs from the planned deployment of the benefits realization plan in 2015 up to the transition to Umoja as the book of record, as well as the system of record for property, plant, equipment and inventory in peacekeeping operations in 2017. In this regard, the following five major components have been identified as the core pillars of the IPSAS sustainability plan:

(a) IPSAS benefits management;

(b) Strengthening of internal controls Organization-wide;

(c) Managing the IPSAS regulatory framework to implement changes in the Standards, as well as drive related changes to systems; monitoring the work of the IPSAS Board;

(d) Supporting the transition to Umoja as the system and book of record for IPSAS-compliant accounting and reporting, and to automated financial statements through Umoja;

(e) Continued IPSAS training and the deployment of a skills strategy focused on developing talent for analysis of the financial information triggered by IPSAS.

Management of IPSAS benefits

7. As indicated in paragraph 40 of his report, the Secretary-General, since initially proposing the adoption of IPSAS (see A/60/846/Add.3), has identified five major benefit categories, namely (a) alignment with best practices; (b) improved stewardship of assets and liabilities; (c) availability of more comprehensive information on costs; (d) improved consistency and comparability; and (e) increased transparency and accountability in which benefits are expected to materialize. In paragraph 41 of his report, the Secretary-General states that a formal IPSAS benefits realization plan has been developed and comprises 15 originally envisaged benefits to be realized across the five above-mentioned major strategic benefit categories. For each benefit, one or several major performance indicators have been defined to measure progress towards its realization. The plan was endorsed by the Management Committee in the third quarter of 2014 and welcomed by the General Assembly in its resolution 69/262. The Secretary-General also indicates that the

deployment of a reporting and tracking mechanism will begin in the third quarter of 2015, first for peacekeeping entities and then for non-peacekeeping entities. Moreover, some benefits, such as the achievement of compliance with international best practices in accounting; improved management, accountability and control over assets; more comprehensive information on the Organization's costs; and improved consistency in applying accounting policies, have already been identified. In this regard, the Advisory Committee notes that the financial statements it has reviewed since the adoption of IPSAS have been more detailed and have been presented with useful financial ratios which facilitate comparison of performance between financial periods and across entities. However, in his report, the Secretary-General indicates that longer-term benefits, in particular related to financial decision-making and longer-term financial risk management, will require several financial periods to better assess trends and subsequently use the analysis of these trends for decision-making purposes.

8. In paragraph 44 (b) of his report, the Secretary-General indicates that the Management Committee, in its review of financial statements information, decided to keep inventory turnover under review. Upon enquiry, the Advisory Committee was informed that inventory turnover was the average number of days taken to sell or consume inventory, the two main categories being: strategic reserves for peacekeeping operations, such as strategic deployment stocks, fuel reserves, rations and bottled water; and non-financial inventories. According to the information provided, the inventory turnover ratio for strategic reserves was 0.35 (representing 1,052 days) in 2013/14 and 0.46 (representing 788 days) in 2014/15. The inventory turnover ratio for non-financial inventory was 0.50 (representing 737 days) in 2013/14 and 0.54 (representing 682 days) in 2014/15. It was explained that the apparent low turnover rate for strategic reserves was influenced by their being held in storage until such time as they were issued to field missions for consumption, while the low turnover rate for non-financial inventories resulted from increased safety stock levels determined by field missions' specific supply-chain parameters, such as procurement lead times, unpredictable operating environments and local market conditions. It was further explained that, while standard industry ratios existed, they could not be applied without due regard to the unique operational environment of the United Nations. In this regard, the Committee was informed that the key to understanding the optimal level of inventories for peacekeeping operations would be the use of trend analysis, while taking into account variations in local conditions at specific locations. **While taking note of the explanation provided for the low inventory turnover ratios, the Advisory Committee is nevertheless of the view that the particular operating environment of the United Nations, especially in peacekeeping, should not be used as an excuse to justify inefficient inventory management policies and practices that may expose the Organization to the increased risk of inventory damage and obsolescence. The Committee considers that, in addition to trend analysis, these inventory turnover ratios merit further analysis and comparison with the turnover ratios of other organizations.**

9. Upon further enquiry, the Advisory Committee was informed that as part of the comprehensive data cleansing exercise related to the implementation of IPSAS, the Accounts Division had reviewed all extrabudgetary contributions receivable that had been outstanding for two or more years as at 31 December 2013. The Committee was informed that, as at that date, the contributions receivable in that

category had been established at $451 million. The Committee was also informed that, as a result of the review, an allowance for doubtful debts had been established at $1.2 million, while an amount of $1.1 million had been proposed for write-off. As for the financial year 2014, the Committee was informed that voluntary contributions outstanding for two or more years at 31 December 2014 had amounted to $361 million and after review, an allowance for doubtful debts had been established at $1.6 million. **The Advisory Committee notes that, with the implementation of IPSAS, the management of voluntary contributions receivable seems to have improved and, in that regard, expects that the status of long-outstanding voluntary contributions will continue to be monitored closely.**

10. In paragraph 45 of his report, the Secretary-General indicates that additional information about IPSAS benefits realization will appear as the process of preparing IPSAS-compliant financial statements matures Organization-wide, combined with the full deployment of Umoja. **In this regard, the Advisory Committee recalls its earlier comments, in which it stressed the role of managers in ensuring the delivery of IPSAS benefits throughout the United Nations and expressed the view that further benefits should continue to be explored as the implementation of IPSAS progresses (A/69/414, para. 25). The Committee stresses that the real benefit of IPSAS to the Organization will not only be the issuance of more accurate and reliable financial statements but also the ways in which IPSAS standards will be embedded in the day-to-day work processes throughout the Organization and in which the information furnished will be used to manage the Organization's resources more efficiently and effectively.**

Strengthening internal controls

11. In his report, the Secretary-General indicates that IPSAS implementation has already led to the tightening of processes and procedures, in particular those related to asset management, employee benefits expenses, implementing partnerships and grants management, and that sustaining IPSAS compliance requires a review to ascertain the effectiveness and comprehensiveness of the wider internal control framework. In paragraph 51 of his report, the Secretary-General also indicates that, as a basis for its approach, the United Nations will use the internal control-integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and that the Organization's Statement on Internal Controls is planned for deployment in the financial period 2017/18 for peacekeeping and in the financial year 2018 for non-peacekeeping operations covering all business areas of the United Nations Secretariat.

12. Upon enquiry, the Advisory Committee was informed that the COSO framework had five components, namely, control environment, risk assessment, control activities, information and communications, and monitoring activities. The Committee was also informed that the framework comprised 17 principles underpinning the five components, providing clarity for the user designing and implementing systems of internal control. In addition, the framework emphasized the importance of management judgement in assessing, designing, implementing and conducting internal control. In this regard, the Committee was informed that the implementation of the Organization's internal control framework would take into consideration the deployment of Umoja and the mapping of its existing internal

control elements against COSO components and principles in order to close any gaps between the two.

13. **The Advisory Committee looks forward to receiving information on the implementation of the Organization's internal control framework in future reports to the General Assembly.**

Umoja processes and transition arrangements

14. In his report, the Secretary-General indicates that the ongoing customization and adjustment of Umoja will be another crucial enabler and pillar towards longer-term IPSAS sustainability. The Secretary-General also explains that having an adaptable information technology system for which sufficient staff possess the accounting and financial background, as well as technical understanding of the system architecture, has been the focus during the initial design phase of Umoja and will continue to be an area of utmost importance. He further explains that even after Umoja is rolled out, considerable work will still be required on the mapping of finance processes and ensuring their compliance with IPSAS. Such processes include the management of property, plant and equipment; the accounting treatment of extrabudgetary contributions; and the management of the Umoja-Integrated Management Information System (IMIS) interface and the eventual change of the book of records from IMIS to Umoja. Furthermore, the Secretary-General indicates that work will continue on the updating of the accounting manual that blends IPSAS policies with Umoja processes and guides the user in the processing of accounting transactions within Umoja.

15. Figure II of the Secretary-General's report highlights the delayed implementation of Umoja as the remaining high-impact risk to the IPSAS project. Upon enquiry, the Advisory Committee was informed that the Umoja risk could be broken down into the following individual risks: (a) the delayed deployment of Umoja cluster 4; (b) processes not in place for recording and updating property, plant and equipment; and (c) the continued reliance on a multiplicity of legacy systems as transitional measure and not having Umoja perform all the transactions from the beginning to the end. This, according to the information provided, was the Organization's most significant risk. **In this regard, the Advisory Committee recalls the concern expressed by the General Assembly in its resolution 68/247, section II, paragraph 13, about the continued slippage in the implementation of Umoja and the significant risk this poses for the successful implementation of IPSAS and the realization of its expected benefits. In addition, the Committee reiterates its concern about the high level of risk involved in the continued transfer of data across multiple systems for the purpose of preparing financial statements (A/69/414, para. 18).**

16. On a related matter, the Advisory Committee notes from the observations of the Board of Auditors that some residual issues related to previous deployments of Umoja, which could have an impact on the financial statements, still remain. In its fourth annual progress report on the implementation of Umoja (A/70/158, para. 31), the Board observes that at the end of March 2015, there were an estimated 37,650 unreconciled accounts payable items relating to transactions processed by the Regional Service Centre at Entebbe, Uganda. This state of affairs, according to the Board, indicates that the number of unreconciled items has increased compared with the 27,000 items reported as at April 2014 (A/70/158, para. 27), suggesting that the

root causes of these issues may not have been addressed adequately despite the Administration's efforts. Upon enquiry, the Committee was informed that, in order to address these issues, which were considered temporary, the Administration had increased the provision of support to the Regional Service Centre through weekly video teleconferences with Headquarters and dispatched a team to Entebbe in May 2015 to guide and provide support for the clearance of the unreconciled items. The Committee was also informed that, as a result of that support, the number of unreconciled accounts payable items had been reduced to 12,344 by the end of July 2015. **The Advisory Committee expects that issues such as unreconciled accounts payable will continue to be monitored closely even as the implementation of Umoja progresses to the next phase.**

17. During its consideration of the Secretary-General's report, the Advisory Committee received information from the Controller indicating that the delivery of the financial statements of the United Nations for the year 2015, as will be reported in volume I (see para. 5 above), would be delayed by two months, beyond the statutory deadline of 31 March 2016, to 31 May 2016. According to the information, the revised timeline has been necessitated by the delays related to the decommissioning of IMIS, which is the system of record for the financial statements, on 17 October 2015, and the three-week "blackout" period before the cluster 4 roll-out of the Umoja system, on 9 November 2015. It was explained that, in addition to the three-week delay, the timeline for the preparation of financial statements would be adversely impacted by the subsequent ramp-up activities and the stabilization of operating processes in the period following the roll-out.

Training and skills development

18. According to figure III of the Secretary-General's report, 11,800 staff members had received basic awareness training by 30 June 2015 compared with the original target of 10,000. Similarly, 9,900 staff members, compared with the 7,500 originally projected, had received working-level training; 3,555 staff members, compared with 2,900, had received intermediate training; and 332 staff members, compared with 500, had received advanced training. The table shows that the advanced training targets finance staff directly involved in the preparation of financial statements. The report indicates that initiatives during the post-implementation phase will focus on professionalizing the finance function with highly skilled managers who will provide support to all business areas with more analysis and the use of IPSAS information for decision-making. The report also states that the Board of Auditors has recommended that entities consider the need for a more structured and formalized approach when it comes to the skills development of the finance function, to challenge and provide advice to the business (see A/69/155, para. 18), as has been done by some organizations within the United Nations system. In response to the Board's recommendation, it is indicated that, in consultation with the Office for Human Resources Management, a suitable qualification programme will be developed for the Organization. **The Advisory Committee notes the planned initiative to professionalize the finance role by developing a cadre of highly skilled financial managers. The Committee looks forward to receiving detailed information on the outcome of this programme in future reports to the General Assembly.**

Project budget and expenditures

19. In paragraphs 76 to 79 of his report, the Secretary-General discusses the budget and expenditure of the IPSAS project, and presents the updated status of expenditure for the project from its inception in 2006 up to 30 June 2015. The Advisory Committee recalls that, in 2012 the indicative budget for the project was set at $27 million, comprising $12.8 million from the support account, $10 million from the regular budget and $4.2 million from extrabudgetary resources (see A/67/564, para. 17). In his report, the Secretary-General indicates that the project expenditure up to 30 June 2015, recorded as at 28 July 2015, is still within the indicative budget and amounts to $25.1 million, comprising $12.7 million under the support account; $8.5 million under the regular budget; and expenditure of $3.9 million under extrabudgetary funds incurred by regional commissions and offices away from Headquarters. The report indicates, however, that with sustainability activities expected to continue until the end of 2017, additional resources are projected in the amount of $3.3 million approved for 2015/2016 under the support account and $1.3 million requested for 2016-2017 under the regular budget. The Committee was informed, upon enquiry, that the resources approved under the support account comprised: $684,000 for four general temporary assistance positions (2 P-4, 2 P-3); $2.4 million under consultants; $240,000 under official travel; and $25,000 under other supplies, services and equipment. **The Advisory Committee notes that the reported expenditure for the project as at 30 June 2015 remains within the indicative budget estimate. As the project transitions to the post-implementation stage, the Committee expects that the continued investment in IPSAS training and skills development throughout the Organization will translate into the gradual transfer of IPSAS compliance responsibilities to the respective departments and field offices, and the reduced reliance on external consultants.**

III. IPSAS and the United Nations system

20. Paragraphs 80 to 88 of the Secretary-General's report relate to IPSAS activities throughout the United Nations system during the post-implementation phase of the project, now that all 24 organizations have successfully implemented IPSAS and received unqualified audit opinions on their IPSAS-compliant financial statements. It is indicated the United Nations system Task Force on Accounting Standards will continue to provide a platform where organizations share experiences and lessons learned. With the backing of the system-wide IPSAS project team, the Task Force will endeavour to support and sustain the organizations' IPSAS compliance through the following activities: (a) interacting with the IPSAS Board and providing feedback to the organizations; (b) providing guidance on matters of accounting policy; (c) organizing thematic focus groups to discuss specific technical issues in order to promote a better understanding of IPSAS; (d) managing the divergences in the interpretation of accounting standards owing to the differences in business models of the respective organizations, in order to enhance the comparability of United Nations system financial statements. The Task Force, with support provided by the IPSAS project team, has prepared suggested terminology for the statement of financial position and is currently working on suggested terminology for the statement of financial performance and a comparative analysis of accounting policies on assets.

21. The Advisory Committee trusts that every effort will be made to ensure the harmonization of the interpretation of accounting standards so as not to undermine the comparability of the financial statements of the organizations of the United Nations system.

IV. Actions to be taken by the General Assembly

22. Taking into account the observations contained in the preceding paragraphs, the Advisory Committee recommends that the General Assembly note the progress made since the issuance of the seventh progress report and that it request the Secretary-General to continue to report on the status of IPSAS implementation projects in the United Nations and throughout the United Nations system.